

## 20.09 GASB Concept Statements

The Governmental Accounting Concepts Statements form the GASB's conceptual framework which provides a foundation to guide the Board's development of accounting and financial reporting standards (much like FASB Concepts).

### GASB Concept Statement 1 – Objectives of Financial Reporting

This concept statement **establishes the objectives** of general purpose external financial reporting by state and local governmental entities and applies to both (1) governmental-type and (2) business-type activities.

The characteristics that affect financial reporting of **governmental-type activities** are:

- **Primary** characteristics of government's structure and the services it provides:
  - The representative form of government and the separation of powers
  - The prevalence of intergovernmental revenues
  - The services provided to taxpayers
- **Control** characteristics resulting from government's structure:
  - The *budget* as an expression of public policy and financial intent and as a method of providing control
  - The use of fund accounting for control purposes
- **Other** characteristics:
  - The dissimilarities between similarly designated governments
  - The significant investment in non-revenue-producing capital assets
  - The nature of the political process

The Board has identified three groups as the **primary users** of external state and local governmental financial reports:

- The citizenry
- Legislative and oversight bodies
- Investors and creditors

Financial reports are used primarily to:

- Compare Actual financial results with the legally adopted budget
- To assist in determining Compliance with finance-related laws, rules, and regulations
- To assist in evaluating Efficiency and Effectiveness
- To assess Financial condition and results of operations

The Board believes that financial reporting plays a major role in fulfilling government's duty to:

- Be Publicly **Accountable** in a democratic society (taxpayer has a "right to know").

- Provide information to assist users in assessing **interperiod equity** (are current-year revenues sufficient to pay for current-year services or whether future taxpayers will be required to assume burdens for services previously provided).

State and local governmental financial reports should possess these basic characteristics: **understandability, reliability, relevance, timeliness, consistency, and comparability.**

The financial reporting **objectives set forth in GASB Concept Statement 1** are:

Financial reporting should assist in fulfilling government's duty to be publicly **Accountable** and should enable users to assess that accountability by:

- Providing information to determine whether current-year revenues were sufficient to pay for current-year services
- Demonstrating whether resources were obtained and used in accordance with the entity's legally adopted budget, and demonstrating compliance with other finance-related legal or contractual requirements
- Providing information to assist users in assessing the service efforts, costs, and accomplishments of the governmental entity

Financial reporting should assist users in **evaluating the operating results** of the governmental entity for the year by:

- Providing information about sources and uses of financial resources
- Providing information about how it financed its activities and met its cash requirements
- Providing information necessary to determine whether its financial position improved or deteriorated as a result of the year's operations

Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its **ability to meet its obligations** as they become due by:

- Providing information about its financial position and condition
- Providing information about its physical and other nonfinancial resources having useful lives that extend beyond the current year
- Disclosing legal or contractual restrictions on resources and the risk of potential loss of resources

Governmental **business-type activities** (run like a private business) are also subject to the objectives stated above because they are part of the government, so they are therefore publicly **accountable**. Some business type activities are characterized by an exchange relationship involving "user charges," while others involve receiving significant operating subsidies, capital grants, or taxes from the general government.

## **GASB Concept Statement 2 – SEA Reporting**

(amended by Concept Statement 5)

This concept statement further develops the objective, elements and characteristics of **service efforts and accomplishments (SEA)** reporting.

*The objective of SEA reporting* is to provide more complete information about a governmental entity's performance than can be provided by the traditional F/S and schedules to assist users in assessing the economy, efficiency, and effectiveness of services provided.

This would expand the amount and types of information being gathered and reported externally; The Board believes that including SEA measures as part of General Purpose External Financial Reporting (GPEFR) would represent a significant improvement in financial reporting practices for state and local governmental entities.

Ideally a governmental entity should:

- Establish and communicate clear, relevant goals and objectives
- Set measurable targets for accomplishment
- Develop and report indicators that measure its progress

The elements of SEA reporting include:

- Measures of service effort
- Measures of service accomplishments (output and outcome measures)
- Measures that relate service efforts to service accomplishments (efficiency and cost-outcome measures)
- Narrative or explanatory information

## **GASB Concept Statement 3 – Communication Methods in GPEFR That Contain Basic F/S**

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This Concept provides a conceptual basis for selecting communication methods to present items of information within **general purpose external financial reports (GPEFR)** that contain basic F/S.

- These alternative communication methods include recognition in:
  - Basic F/S
  - Disclosure in notes to basic F/S
  - Presentation as required supplementary information
  - Presentation as supplementary information

Each of these communication methods is defined, and criteria are developed to help the GASB or a preparer of a financial report determine the appropriate method to use to communicate an item of information.

## **GASB Concept Statement 4 – Seven Elements of F/S**

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This Concepts Statement establishes definitions for the seven elements of historically based F/S of state and local governments. Elements are the fundamental components of F/S.

The elements of a **Statement of Financial Position** are:

- **Assets** – Resources with present service capacity that the government presently controls.
- **Liabilities** – Present obligations to sacrifice resources that the government has little or no discretion to avoid.
- **A deferred outflow of resources** – A consumption of net assets by the government that is applicable to a future reporting period.
- **A deferred inflow of resources** – An acquisition of net assets by the government that is applicable to a future reporting period.



- **Net position** – The residual of all other elements presented in a statement of financial position.

The elements of the **Resource Flows Statements** are:

- An **outflow of resources** – A *consumption* of net assets by the government that is applicable to the reporting period.
- An **inflow of resources** – An *acquisition* of net assets by the government that is applicable to the reporting period.
- A **Resource** in the governmental context is an item that can be drawn on to provide services to the citizenry.

## **GASB Concept Statement 6 – Measurement of Elements of F/S**

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This statement establishes two approaches for measurement used in F/S.

- **Initial amounts** are more appropriate for assets that are used in the entity's business, enabling it to provide goods and services. Initial amounts are based on transaction prices or amounts assigned to an asset when it was acquired or a liability when it was assumed.
- **Remeasured amounts**, which are more appropriate for assets that will be converted into cash, financial assets, and for liabilities when there is uncertainty regarding the amount or timing of payments, involves remeasuring an asset or liability as of the balance sheet date.

There are four measurement attributes that are used in F/S:

- *Historical Cost* – the price paid to acquire an asset or the amount received when a liability was incurred in an exchange transaction.
- *Fair value* – the price that would be received to sell an asset or paid to be relieved of a liability in an orderly transaction between market participants.
- *Replacement cost* – the amount that would be paid to obtain resources with equivalent service potential in an orderly market transaction.
- *Settlement amount* – the amount that would be realized from disposal of an asset or the amount at which a liability could be liquidated when there is no active market.

## **Other GASB Statements**

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### **GASB 87: Leases**

GASB 87 establishes a single approach (with limited exceptions, including short-term leases) to accounting for all leases by state and local governments.

- GASB 87 defines a lease as “a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset including vehicles, heavy equipment, and buildings) as specified in the contract for a period of time in an exchange or exchange-like transaction.”
- GASB 87 excludes nonexchange transactions, such as donated assets and leases of intangible assets (eg, patents and software licenses).

Lease term refers to the period during which the lessee has a noncancelable right to use an underlying asset, plus:

- Periods covered by a lessee's/lessor's option to extend the lease if it is reasonably certain the option will be exercised
- Periods covered by a lessee's/lessor's option to terminate the lease if it is reasonably certain the option will not be exercised

Lease categories include short-term leases, contracts that transfer ownership, and all other leases.

- Short-term leases have a maximum possible term of 12 months, including any options to extend, regardless of the probability of the option being exercised. Lessees and lessors recognize lease payments as outflows or inflows of resources, respectively.

Short-term Leases				
	Governmental funds		Government wide, Proprietary & Fiduciary funds	
	Debit	Credit	Debit	Credit
Lessee	Expenditure	Cash or payable	Expense	Cash or payable
Lessor	Receivable	Revenue	Receivable	Revenue

- Contracts that transfer ownership of the underlying asset to the lessee by the end of the contract are reported as a financed purchase of the asset by the lessee, or sale of the asset by the lessor.

Contracts that transfer ownership				
	Governmental funds		Government wide, Proprietary & Fiduciary funds	
	Debit	Credit	Debit	Credit
Lessee	Expenditure	Other financing source	Capital asset	Lease liability
Lessor	Receivable	Current revenue and deferred inflow	Receivable	Capital asset & revenue

- All other leases are those that do not meet the definition of a short-term lease or do not transfer ownership.
  - Lessee Accounting – Recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term.
    - Lease liabilities are measured at the present value of payments expected to be made, less any lease incentives. The lease liability is reduced as payments are made, and an outflow of resources is recognized for interest on the liability.

- Lease assets are measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.
- Notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments.
- Lessor Accounting – Recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset.
  - Lease receivables are measured at the present value of lease payments expected to be received during the lease term.
  - Lease receipts (payments from lessee) reduce the lease receivable and are recognized as inflows and revenues.
  - Deferred inflow of resources is the sum of the initial measurement of the lease liability and lease payments received made prior to commencement, less any lease incentives.
  - Underlying (leased) assets are not derecognized and continue to be depreciated.
  - Notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

All Other Leases				
	Governmental funds		Government wide, Proprietary & Fiduciary funds	
	Debit	Credit	Debit	Credit
Lessee	Expenditure	Other financing source	Right-of-use asset	Lease liability
Lessor	Receivable	Current revenue and deferred inflow	Receivable	Deferred inflow

## **GASB 96: Subscription-based information technology arrangements**

As information technology agreements have become more prevalent, GASB has issued GASB 96 for subscription-based information technology arrangements (SBITAs). GASB 96 is based on the lease guidance in GASB 87.

SBITA is a contract that conveys control of the right to use another party's information technology software alone or in combination with tangible capital assets (eg, computer hardware) as specified in the contract for a period of time in an exchange or exchange-like transaction.

- An intangible right to use subscription asset and a corresponding subscription liability is recognized at the commencement of the subscription term and measured at the present value of the subscription payments.
- Amortization of the subscription asset is recognized as an outflow of resources over the subscription term

Activities associated with a SBITA, other than subscription payments, are grouped into three stages:

- Preliminary project stage: This includes evaluating alternatives, determining the required technology, and selecting a vendor. Outlays in this stage should be expensed as incurred.
- Initial implementation stage: This includes all charges necessary to put the SBITA into service. Outlays in this stage are generally capitalized as an addition to the subscription asset.
- Operation and additional implementation stage: This includes maintenance, subsequent implementations and other ongoing activities related to the SBITA. These costs should be expensed as incurred unless they meet specific capitalization criteria.

GASB 96 requires note disclosures regarding the descriptive information about its SBITAs including the amount of the subscription asset, accumulated amortization, payments not included in the subscription liability, and the liability principal and interest requirements.